

Message Text

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TO SECSTATE WASHDC 8007

USLO PEKING

C O N F I D E N T I A L SECTION 1 OF 3 HONG KONG 8576

NOFORN

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SUBJ: PEOPLE'S REPUBLIC OF CHINA ECONOMIC REVIEW 17

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POUCHED: ATHENS, BANGKOK, BUENOS AIRES, BRISBANE, CANBERRA, DAKAR,
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SINGAPORE TAIPEI TEHRAN TOKYO VIENTIANE COMUSTDC

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1. SUMMARY

ADDITIONAL INDICATORS SUPPORT THE VIEW THAT THE GROWTH RATE OF PRC INDUSTRIAL PRODUCTION WAS UP IN THE FIRST HALF. FURTHERMORE, THE PACE OF CONSTRUCTION ACTIVITY AND OF MACHINERY INSTALLATION SUGGESTS THAT A GOOD MATERIAL FOUNDATION IS BEING LAID FOR FURTHER PRODUCTION INCREASES (ITEM 2). UNFORTUNATELY, THE PROSPECTS FOR THAT TREND ARE MARRED BY ACCUMULATING EVIDENCE THAT MATERIAL INCENTIVES AND "EXPERTNESS" MAY BECOME VICTIMS OF A SHIFT TOWARD MAOIST EXHORTATION AS THE MEANS TO INCREASE OUTPUT (ITEM 3.) TAKEN TOGETHER WITH THE CONTROVERSIES OVER EDUCATION POLICY, SCIENCE AND BIRTH CONTROL, THESE MAKE UP A SLATE OF ECONOMIC ISSUES STRIKINGLY SIMILAR TO THOSE OF THE CULTURAL REVOLUTION.

SO FAR, PRC FOREIGN ECONOMIC POLICY CONTINUES ALONG KNOWN LINES. THERE IS LITTLE EVIDENCE OF CONTROVERSY BEYOND THE FACT THAT FEW NEW INCENTIVES HAVE APPEARED. A CHINESE TEAM HAS ARRIVED IN TOKYO TO, IN NCNA'S OWN WORDS, "NEGOTIATE A TRADE AGREEMENT" (ITEM 6) EVEN WHILE THE CIVIL TALKS REMAIN STALLED OVER THE IDEOLOGICAL ISSUE OF TAIWAN (ITEM 7). ON THE FINANCIAL FRONT, THE RMB CONTINUES TO "ADJUST" IN RESPONSE TO DEVELOPMENTS IN THE MONEY MARKET (ITEM 4), AND THE NEW YEN-YUAN AGREEMENT CONCLUDED WITH THE BANK OF TOKYO REPORTEDLY TAKES GREATER-AND TO THE JAPANESE, MORE SATISFACTORY--ACCOUNT OF CURRENCY RATE FLUCTUATIONS (ITEM 5). A NOTE OF HESITANCY, HOWEVER, COMES THROUGH IN THE REPORT THAT THE BANK OF CHINA DID NOT TAKE UP A JAPANESE BANK ON ITS OFFER TO MAKE A YEN DEPOSIT AS A MEANS TO FACILITATE TRADE. CONFIDENTIAL NOFORN

2. INDUSTRIAL GROWTH RATE UP

ADDITIONAL INDICATORS SUPPORT THE VIEW (EXPRESSED
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EARLIER IN ER 15, HK 7611) THAT THE GROWTH RATE OF INDUSTRIAL PRODUCTION WAS UP 21.6 PERCENT; IN PEKING, 8.9 PERCENT; IN LIAONING ROLLED STEEL WAS UP 11.8 PERCENT; AND IN HUBEI IRON AND STEEL WAS LISTED AMONG THOSE WHOSE OUTPUT INCREASED FROM 5 TO 25 PERCENT. THESE AREAS PROBABLY ACCOUNT FOR SLIGHTLY OVER HALF OF THE PRC'S STEEL OUTPUT FROM LARGE PLANTS, SO THESE DATA INDICATE A RATE OF INCREASE PERHAPS HALF AGAIN AS LARGE AS LAST YEAR'S.

FURTHERMORE, INSTALLED CAPACITY APPARENTLY ALSO INCREASED AT A GOOD RATE DURING THE FIRST HALF THEREBY CREATING PART OF THE NECESSARY CONDITIONS FOR CONTINUED GROWTH IN INDUSTRIAL OUTPUT RATES. IN THE FIRST HALF OF THIS YEAR, THE NEWLY ADDED CAPACITY OF IRON ORE DRESSING AND CINTERING,

COAL MINING, PETROLEUM EXTRACTION AND POWER GENERATION WAS DOUBLE OR SEVERAL TIMES THAT ADDED IN THE SAME 1972 PERIOD. THE CAPACITY OF FARM MACHINERY BUILDING, CONSUMER GOODS MAKING, METAL REFINING AND STEEL ROLLING HAS ALSO INCREASED (NCNA AUGUST 11).

INCOMPLETE STATISTICS FROM THREE MUNICIPALITIES (PEKING SHANGHAI AND TIENTSIN) AND 13 PROVINCES (INCLUDING, AMONG OTHERS, THE INDUSTRIALLY IMPORTANT HEILUNGKIANG, LIAONING, HUPEH, HOPEH AND HONAN) SHOWED THAT THE FLOOR SPACE OF INDUSTRIAL PROJECTS COMPLETED IN THE FIRST HALF OF THIS YEAR INCREASED BY 21 PERCENT, THE AMOUNT OF BUILDING AND MACHINE INSTALLATION WORK INCREASED BY 17 PERCENT AND LABOR PRODUCTIVITY INCREASED BY 16 PERCENT. CONFIDENTIAL

3. INDUSTRY: CRITICISM OF INCENTIVES AND EXPERTS
THE PROSPECTS FOR A STRONG CONTINUATION OF THE UPWARD TREND IN INDUSTRIAL GROWTH AND SOMEWHAT MARRED BY INDICATIONS THAT SOME OF THE POLICIES IN THE CONSTELLATION THAT PRODUCED THIS TREND ARE THE SUBJECT OF CONTROVERSY WITHIN THE LEADERSHIP. THE CLEARER EVIDENCE THUS FAR OF CONTROVERSY CONCERNS THE ROLE OF EXPERTNESS (AND EXAMINATIONS TO DETERMINE THE CANDIDATE'S LEVEL OF BOOK-LEARNING) IN DETERMINING WHO SHALL ENTER UNIVERSITY (HK 8249 AND PREVIOUS). AN ARTICLE IN THE LATEST RED FLAG, NO 8, ALSO SEEMS TO DOWNGRADE THE ROLE OF "EXPERTNESS" (IN THE FORM OF TECHNICIANS) IN EXPANDING INDUSTRIAL OUTPUT. THE MAJOR CREDIT IS GIVEN TO THE WORKERS AND THEIR ENTHUSIASM (HK 8451). EVEN SHARPER WAS THE ATTACK IN AN AUGUST 19 PEOPLE'S DAILY ARTICLE. CONFIDENTIAL

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(HK 8519). IF ONE DOES NOT GRASP THE POLITICAL LINE BUT ONLY GOES AFTER MATTERS AT HAND ONE MIGHT BECOME A "REALIST," SOMEONE WHO HAS LOST HIS "CORRECT BEARINGS," OR ONE MIGHT COMMIT SUCH MISTAKES AS "REPRESSING THE MASSES" OR "PUTTING MATERIAL INCENTIVES INTO PRACTICE." THAT THESE MISTAKES ARE SAID TO "HAVE ALREADY BEEN CRITICIZED IN THE PAST" SUGGESTS BOTH THAT SUCH "MISTAKES" ARE SERIOUS ONES AND THAT A MOVEMENT AGAINST THEM HAS AGAIN STARTED UP. PRODUCTION IS LIKELY TO BE ADVERSELY AFFECTED NOT ONLY BY THE CLAMPDOWN ON SUCH THINGS AS BONUSES BY ANY EXTRA TIME SPENT "STUDYING" OR IN CRITICISM SESSIONS BUT ALSO BY INCREASED APATHY ON THE PART OF TECHNICIANS AND MANAGERS. UNCLASSIFIED

4. RBM CONTINUES TO FLOAT
DURING AUGUST (THROUGH THE 23RD) RMB HAS DEPRECIATED THROUGH THE 18TH (RISING FROM 37.19 PER HK\$100 TO 38.52) AND THEN APPRECIATED ON AUGUST 22, TO 37.71. DURING MOST OF THE SAME PERIOD THE RMB DEPRECIATED AGAINST THE US DOLLAR AS WELL. THIS MOVEMENT PRESUMABLY REFLECTS THE STRENGTHENING OF THE US DOLLAR VIS-A-VIS THE HONG KONG DOLLAR WHICH IN TURN IS INFLUENCED BY A SIMILAR TREND ON

THE MAJOR EUROPEAN CURRENCY MARKETS. UNCLASSIFIED

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NOFORN

5. NEW YEN-YUAN PACT

ON AUGUST 8, THE BANK OF TOKYO AND THE BANK OF CHINA SIGNED A NEW AGREEMENT ON THE YEN-YUAN (RMB) SETTLEMENT IN PEKING (FBIS IV, AUGUST 9. THE NEW AGREEMENT REPLACES THE ONE-YEAR PROVISIONAL AGREEMENT SIGNED IN AUGUST 1972(1972 TOKYO 8897). INTERNATIONAL MONETARY FLUCTUATIONS ARE TAKEN INTO ACCOUNT BY THE NEW AGREEMENT, THE SCOPE OF SETTLEMENT WILL INCLUDE INVISIBLE TRANSACTIONS AS WELL AS VISIBLE TRADE AND IMPROVEMENTS HAVE BEEN MADE IN TECHNICAL PROCEDURES FOR YEN-YUAN SETTLEMENT. THE CHINESE ASKED THAT THE CONTENTS OF THE AGREEMENT BE CAREFULLY EXPLAINED TO THE 19 OTHER JAPANESE BANKS WITH WHICH CHINA HAS CORRESPONDENCE CONTRACTS (HK STANDARD, AUGUST 10).

FROM THE DESCRIPTION OF THE AGREEMENT IN THE JETRO CHINA NEWS LETTER, IT APPEARS THAT THE JAPANESE EXPORTERS WERE DISSATISFIED WITH THE PREVIOUS ACCORD BECAUSE IT LEFT THEM HOLDING THE EXCHANGE RISK. THIS RISK ARISES BECAUSE:
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- (1) JAPAN NORMALLY HAS A SURPLUS IN ITS TRADE WITH CHINA;
- (2) THAT SURPLUS CAN ONLY BE SETTLED IN STERLING AT THE

RMB/STERLING RATE ESTABLISHED BY THE BANK OF CHINA; (3) STERLING COULD DEPRECIATE MORE VIS-A-VIS THE YEN THAN THE RMB CAUSING THE JAPANESE A LOSS AS COMPARED TO EXPORTS TO OTHER MARKETS.

THE NEW AGREEMENT, IN TAKING INTO ACCOUNT INTERNATIONAL MONETARY FLUCTUATIONS, PROBABLY HAS IMPROVED THE JAPANESE POSITION IN FUTURE YEN-YUAN SETTLEMENTS. THE APPARENT CHINESE SATISFACTION WITH THE NEW AGREEMENT PROBABLY STEMS FROM THE GREATER EASE WITH WHICH THE RMB WILL BE ABLE TO BE USED IN TRANSACTIONS WITH THE JAPANESE. UNCLASSIFIED

6. SINO-JAPANESE TRADE AGREEMENT NEGOTIATIONS

NEGOTIATIONS BEGAN ON AUGUST 17 IN TOKYO TO DRAFT A PRC-JAPAN TRADE AGREEMENT WHICH WILL REPLACE THE MEMORANDUM TRADE AGREEMENTS OF PRE-RECOGNITION TIMES. THE CHINESE DELEGATION IS LED BY HSI YEH-SHENG, A DEPARTMENTAL DIRECTOR OF THE MINISTRY OF FOREIGN TRADE. ITS DEPUTY LEADER IS YEH CHING-HAO, COMMERCIAL COUNSELLOR OF THE CHINESE EMBASSY IN JAPAN (NCNA AUGUST 16).

MAIN TOPICS FOR DISCUSSION ARE MFN TREATMENT, A SETTLEMENT FORMULA FOR TRADE ACCOUNTS, THE FORMATION OF A JOINT COMMITTEE TO MAKE ANNUAL TRADE REVIEWS AND A FEW OTHER RELATED MATTERS. THE CHINESE APPEAR ANXIOUS TO CONCLUDE AGREEMENT AT THESE MEETINGS, WHICH THE JAPANESE TAKE TO BE AN INDICATION THAT THE DEADLOCKED AIR NEGOTIATIONS WILL HAVE NO EFFECT ON THIS AFFAIR. MITI BELIEVES THE CHINESE ANXIETY IS BASED ON THE HOPE THAT AGREEMENT CAN BE REACHED BEFORE THE TANAKA-BREZHNEV SUMMIT THIS AUTUMN.

THE JAPANESE, HOWEVER, HAVE BEEN SKEPTICAL THAT A SPEEDY CONCLUSION IN A WEEK OR TWO IS POSSIBLE. AMONG THE PROBLEM AREAS ARE: (1) JAPANESE DESIRE FOR PRC RECOGNITION OF JAPANESE PATENT RIGHTS AND (2) NEGOTIATION OF A NATIONAL TREATMENT CLAUSE, WHICH WOULD GUARANTEE JAPANESE PRIVATE FIRMS OPERATING IN THE PRC THE SAME TREATMENT AS PRC ENTITIES. WITH NO PRIVATE FIRMS IN PRC, SUCH A FORMULA WILL BE PARTICULARLY DIFFICULT TO ARRIVE AT (TOKYO 10520). IF ALL GOES WELL, LIU HSI-WEN, ASSISTANT MINISTER OF FOREIGN TRADE MAY SIGN THE AGREEMENT WHEN HE LEADS A GOVERNMENT DELEGATION TO TOKYO NEXT MONTH. FOR JAPANESE DOMESTIC POLITICAL AND CONFIDENTIAL

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LEGAL REASONS, HOWEVER, A COMMERCIAL AGREEMENT WILL REQUIRE DIET APPROVAL. THEREFORE, JAPANESE SOURCES FEEL THAT FINAL RATIFICATION WILL NOT OCCUR UNTIL NOVEMBER. LIMITED OFFICIAL USE

7. CIVIL AVIATION: JAPAN AUSTRALIA US

THE SINO-JAPANESE AIR NEGOTIATIONS REMAIN DEADLOCKED WITH EACH SIDE WAITING FOR CONCESSIONS FROM THE OTHER. THE PRC HAS ASKED THE JAPANESE TO PRESSURE TAIWAN TO RENAME ITS AIRLINE TO INDICATE THAT IT REPRESENTED "TAIWAN" AND NOT "CHINA" AND TO REMOVE THE GRC FLAG. THE COUNSELOR OF THE

JAPANESE EMBASSY IN PEKING TOLD USLO THAT HIS RECOMMENDATION WAS THAT JAPAN, THE UNITED STATES, KOREA, HONG KONG AND SINGAPORE, ALL DESTINATIONS OF CHINA AIRLINES, JOIN IN PRESSURING THE GRC TO MEET THE PRC'S CONDITIONS (PEKING 820).
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CHINA'S AIRLINE (CAAC) REPORTEDLY IS CLOSELY EXAMINING TECHNICAL ASPECTS OF USING THE NOMAD, AN AUSTRALIAN-MADE 10-PASSENGER STOL AIRCRAFT, ON DOMESTIC FLIGHTS. THE AIRCRAFT WAS DEMONSTRATED BEFORE MR PAI HSIANG-KUO, CHINESE MINISTER OF FOREIGN TRADE, DURING HIS RECENT VISIT TO AUSTRALIA (SOUTH CHINA MORNING POST, AUGUST 18.) UNCLASSIFIED

MEANWHILE, IN WASHINGTON, UNITED AIRLINES HAS ASKED THE CIVIL AERONAUTICS BOARD TO EXPEDITE ACTION ON ITS 1971 APPLICATION TO FLY PASSENGERS AND CARGO BETWEEN THE US AND THE PRC. UNITED ASKED TO FLY BETWEEN SEATTLE AND PEKING, SHANGHAI AND CANTON, WITH A STOP AT TOKYO. THE CAB REPORTEDLY HAS NOT STARTED PROCEEDINGS ON THE GROUNDS THAT THE US HAS NO BILATERAL AVIATION AGREEMENTS WITH THE PRC (RUETER WASHINGTON AUGUST 19). UNCLASSIFIED

8. BADMINTON DIPLOMACY--THAILAND PERMITS TRADE RELATIONS WITH CHINA

ON AUGUST 15, THE THAI CABINET AMENDED DECREE NO 53, THUS REMOVING ALL TRADE RESTRICTIONS WITH CHINA. THE AMENDMENT BILL WILL ALSO STIPULATE THAT A NEW TRADING ENTERPRISE WILL BE SET UP TO REGULATE TRADE DEALINGS. NO INDIVIDUAL TRADING ENTERPRISES WILL BE PERMITTED TO ENTER INTO ANY TRADING NEGOTIATIONS WITH THE CHINESE (SOUTH CHINA MORNING POST AUGUST 16).

EARLIER IT WAS REPORTED THAT THE COMMERCE MINISTRY HAD
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RECOMMENDED SETTING UP A STATE TRADING FIRM CAPITALIZED AT US\$100,000 TO TRADE WITH COMMUNIST COUNTRIES, PRIMARILY CHINA. THAILAND IS INTERESTED IN BUYING PULP AND OIL FROM CHINA WHILE IT CAN EXPORT KENAF, MAIZE AND JUTE. IT WAS REPORTED THAT INEARLY AUGUST THE CHINESE REPRESENTATIVE IN HONG KONG CONTACTED THE THAI BOARD OF TRADE TO BUY 200,000 TONS OF MAIZE (HK STANDARD, AUGUST 10).

MOST OF THE CONTACTS BETWEEN THE CHINESE AND THE THAIS HAVE BEEN THROUGH EXCHANGES OF BADMINTON AND PING PONG DELEGATIONS. THE THAI BADMINTON TEAMS, IN PARTICULAR, HAVE BEEN ACCOMPANIED BY SENIOR OFFICIALS FROM THE THAI FOREIGN AND FINANCE MINISTRIES, WHO HELD TALKS WITH PROMINENT CHINESE OFFICIALS DURING THEIR TOURS OF CHINA.

THAI-CHINESE TRADE, DESPITE THE OPTIMISM OF THE THAI, PROBABLY WILL NOT BECOME VERY LARGE BECAUSE THERE ARE ONLY A FEW PRODUCTS THAT ARE OF MUTUAL INTEREST. MORE LIKELY THAN PULP AND OIL, THAI IMPORTS PROBABLY WILL CONSIST MOSTLY OF LIGHT MANUFACTURES AND SPECIALTY FOODSTUFFS. THOUGH THAILAND IS A RICE EXPORTER, IT SEEMS UNLIKELY THAT CHINA--WHICH ALSO IS A NEW EXPORTER OF RICE--WOULD PURCHASE RICE

FROM THAILAND EXCEPT IN EXTENUATING CIRCUMSTANCES--A BAD
HARVEST IN CHINA--OR FOR SATISFYING THIRD COUNTRY DEALS SUCH
AS THECHINA-BURMA-CEYLON RUBBER-RICE DEALS. OTHER THAI
EXPORTS MIGHT INCLUDE SUGAR, HARDWOODS AND IVORY. UNCLASSIFIED

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9. TRADE WITH HONG KONG:EVEN PYTHONS
CHINA'S TRADE SURPLUS WITH HONG KONG FOR THE FIRST
HALF OF 1973 WAS US\$438 MILLION, AN INCREASE OF 42 PERCENT
OVER THE FIRST HALF OF 1972. THIS IMPRESSIVE INCREASE WAS
DUE IN PART TO PRICE MARKUPS AND SUCCESSIVE REVALUATIONS OF
THE RMB; TOTAL TONNAGE OF GOODS SHIPPED TO HONG KONG WAS UP
BY ONLY 14 PERCENT. THE CHINESE ARE OBVIOUSLY KEEN TO
EXPAND THEIR TRADE TO (AND THROUGH) HONG KONG. RECENT PRESS
REPORTS, FOR EXAMPLE, REPORT (1) THE INTRODUCTION HERE OF
A NEW "MULTI-PURPOSE THERAPY APPARATUS" THAT CAN LOCATE
ACUPUNCTURE POINTS AND PERMIT SIMULTANEOUS TREATMENT OF FOUR
PATIENTS;(2) A CONTRACT BETWEEN A LEADING AMERICAN CREDIT
CARD COMPANY AND A RETAIL STORE CHAIN DEALING IN CHINESE
ART AND CRAFTS PRODUCTS; AND (3) THE SALE OF MORE THAN
2,000 PYTHONS TO FOREIGN ZOOS SINCE A NEW SHOP SELLING
CHINESE BIRDS, REPTILES AND OTHER ANIMALS WAS ESTABLISHED
HERE EARLIER THIS YEAR. UNCLASSIFIED
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10. BITS AND PIECES

THE CONTINUED HIGH LEVEL OF CHINESE ECONOMIC AND COMMERICAL ACTIVITY ABROAD IS FURTHER EVIDENCED BY: (1) THE OPENING OF ITS FIRST ECONOMIC AND TRADE EXHIBITION IN ARGENTINA ON AUGUST 10;(2) THE OPENING OF A SIMILAR EXHIBITION IN BRAZZAVILLE ON THE 14TH;(3) PARTICIPATION IN THE 1973 IMZIR INTERNATIONAL TRADE FAIR FOR THE FIRST TIME; (4) CHINESE EXHIBITS AT THE CYPRUS INTERNATIONAL FAIR AND AT THE TEHRAN INTERNATIONAL FAIR; AND (5) A CHINESE ECONOMIC AND TRADE EXHIBITION IN DENMARK (NCNA). THE MOST PROMINENT GUESTS AT THE ARGENTINA EXHIBIT WERE THE PERONS. THE PERONISTS HAVE INDICATED CONSIDERABLE INTEREST IN PMPROVING TIES WITH CHINA AND ALBERTO VIGNES, ARGENTINA FOERIGN RELATIONS MINSITER, MET WITH LI HSI-FU, VICE CHAIRMAN OF THE CCPIT AND HEAD OF THE PRC EXHIBITION GROUP TO DISCUSS POSSIBILITIES FOR INCREASED TRADE ON AUGUST 7 (SOUTH CHINA MORNING POST, AUGUST 9). PROMINENT GUESTS AT THE CHINESE EXHIBITION IN BRAZZAVILLE, WHICH IS ALONGISDE A NATIONAL EXHIBITION OF THE CONGO, INCLUDED PRESIDENT NGOUABI OF THE CONGO AND THE HEADS OF STATE OF ZAIRE, GABON, EQUATORIAL GUENEA, MAURITANIA AND UGANDA.

IN THE MEANTIME A DUTCH PARLIMENTARIANS' DELEGATION IS VISITIING CHINA AND THERE HAVE BEEN PRESS REPORTS THAT INDIA WANTS TO RESUME TRADE TIES WITH CHINA (AFP). THE LATTER MAY HAVE TO AWAIT THE CONCLUSION OF AGREEMENTS BETWEEN INDIA AND PAKISTAN. UNCLASSIFIED

11. SENEGAL: AGRICLUTURAL ASSISTANCE

JOINING A CONTINUEING STREAM OF AFRICAN VISITORS, SENEGAL'S MINISTER OF RURAL DEVELOPMENT ADRIEN SENGHOR AND FOREIGN MINISTER ADAMA MAWA N'DIAYE, MADE CONSECUTIVE VISITS TO PEKING BEGINNING AUGUST 7(NCNA). ARRIVING FIRST, SENGHOR MET WITH PREMIER CHOU EN-LAI, MINISTER OF AGRICULTURE AND FORESTRY SHA FENG AND MINISTER OF ECONOMIC RELATIONS WITH FOREIGN COUNTIRES FANG YI DURING HIS FOUR DAY STAY. N'DIAYE ARRIVED ON THE DAY OF SENGHOR'S DEPARTURE AND SO FAR HAS MET WITH FOREIGN MINISTER CHI PENG-FEI.

HK TA KUNG PAO ON APRIL 30 CARRIED AN AFP DISPATCH FROM DKAAR WHICH STATED THE PRC HAD SENT SOME 50 AGRICULTURAL EXPERTS TO SENEGAL TO REPLACE THE TAIWANESE EXPERTS
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WHO WERE LEAVING. ALTHOUGH WE HAVE NO CONFIRMATION HERE THAT THE GRC RICE EXPERTS HAVE LEFT, THE PRESENCE OF SENEGAL'S MINISTER OF RURAL DEVELOPMENT IN CHINA WOULD INDICATE THAT AGRICULTURAL AID PROJECTS PROBABLY ARE BEING DISCUSSED. IN THE PAST, THE PRC HAS OFFERED ECONOMIC ASSISTANCE ON THE CONDITION THAT THE GRC MISSION BE EXPELLED (DAKAR335). HOWEVER, THE GOS HAS BEEN DIVIDED ON THE QUESTION OF GRC EXPULSION AND, AS FAR AS IS KNOWN, TAIWAN STILL MAINTAINS AN ECONOMIC AND TECHNICAL MISSION

IN SENEGAL. THE HIGH LEVEL TREATMENT GIVEN SENGHOR MAY INDICATE THAT THE PRC STILL IS APPLYING PRESSURE BY OFFERING A MAJOR ECONOMIC ASSISTANCE PROGRAM. PERHAPS AS PART OF THIS INDUCEMENT, PEKING DIPPED INTO ITS NONE TOO PLENTIFUL GRAIN RESERVES FOR A RED CROSS DONATION OF 5,000 TONS FOR SENEGAL DROUGHT RELIEF AND MAY HAVE AGREED TO FURTHER RICE SALES (SEE DAKAR 3729). CONFIDENTIAL

12. COMMUNICATIONS: GREECE HONG KONG
GREECE AND THE PRC HAVE SIGNED AN AGREEMENT FOR OPERATION OF A DIRECT SATELLITE TELECOMMUNICATIONS SYSTEM BETWEEN ATHENS AND PEKING. THE AGREEMENT WAS SIGNED IN PEKING AT THE CONCLUSION OF TALKS BETWEEN MR LI CHIN CHUAN, DIRECTOR GENERAL OF TELECOMMUNICATIONS OF THE MINISTRY OF POSTS AND TELECOMMUNICATIONS, AND MR LEONIDAS ALEXANDROPOULOS, CHAIRMAN OF THE GREEK TELECOMMUNICATIONS ORGANIZATION (ATHENS 5807). MEANWHILE, THE FIRST NEWS AGENCY SATELLITE LINK BETWEEN PEKING AND HONG KONG HAS BEEN SET UP BETWEEN THE AGENCE FRANCE PRESSE BUREAUX IN THE TWO CITIES. PREVIOUSLY, THE BANK OF HINA WAS REPORTEDLY THE ONLY ORGANIZATION WITH A PEKING-HONG KONG SATELLITE LINK (HK STANDARD AUGUST 12). UNCLASSIFIED

13. SHIPPING: IRAN
THE FIRST PRC FRIEGHER HAS CALLED AT A PORT IN IRAN. THE "CHANG TU" ARRIVED AT KORRAMSHAHR AUGUST 9 AND DEPARTED ON THE 13TH (NCNA AUGUST 14). UNCLASSIFIED

14. RECNET REPORTS ON ECONOMIC TOPICS
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